

Message Text

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ORIGIN EB-07

INFO OCT-01 EUR-12 EA-06 NEA-09 ISO-00 AID-05 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05

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R 121940Z MAY 75
FM SECSTATE WASHDC
TO AMEMBASSY NEW DELHI
INFO AMEMBASSY OTTAWA
AMEMBASSY TOKYO
AMEMBASSY LONDON
AMEMBASSY BERN
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AMEMBASSY COPENHAGEN
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AMEMBASSY OSLO
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY STOCKHOLM
AMEMBASSY VIENNA

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SUBJECT: DEBT RELIEF AND WORKING PARTY OF INDIA CONSORTIUM

1. SUMMARY: ALL CREDITORS REGRETTED U.S. DECISION TO AVOID
DEBT RESCHEDULING FOR INDIA THIS YEAR. NEITHER FRANCE NOR

JAPAN COULD ACCEPT U.S. FOOD AID AS PART OF OVERALL CONSORTIUM FREE FOREIGN EXCHANGE PROPOSAL. GERMANY HAS ALREADY SIGNED DEBT RELIEF AGREEMENT WITH INDIA FOR THIS YEAR, AND THE UK, NETHERLANDS, AUSTRIA, SWEDEN AND BELGIUM

APPEAR LIKELY TO PARTICIPATE IN RELIEF EVEN IN ABSENCE OF OTHER CREDITOR PARTICIPATION. FRANCE ALSO INDICATED IT MIGHT GRANT SOME DEBT RELIEF BUT THE AMOUNT WOULD BE DETERMINED AT THE DISCRETION OF THE GOF. JAPAN SAW "VERY LITTLE PROSPECT" THAT IT WOULD RESCHEDULE IN ABSENCE OF MAJOR CREDITORS (U.S., CANADA, ITALY) AND GAVE PRIVATE

INDICATION THAT THEY WERE UNABLE TO PROVIDE COMPENSATING INCREASED AID IN LIEU OF DEBT RELIEF. CANADIAN POSITION ON DEBT RELIEF WON'T BE KNOWN UNTIL LATER IN THE YEAR, WHEN BILATERAL NEGOTIATIONS WITH INDIA ON NUCLEAR CONTROLS ARE COMPLETED, AND ITALIAN PARTICIPATION IS HIGHLY UNLIKELY. ALTHOUGH THE WORLD BANK IS LIKELY TO PATCH TOGETHER SOME SORT OF DEBT RELIEF AGREEMENT THIS YEAR, IT APPEARED THAT THE ABSENCE OF U.S. PARTICIPATION NEXT YEAR MIGHT PRECLUDE ANY OVERALL CONSORTIUM DEBT RELIEF AGREEMENT.

2. U.S. REP (NOOTER) GAVE DETAILED OUTLINE U.S. POSITION ON DEBT RELIEF FOR INDIA AS ENUMERATED IN STATE 212193 OF 24 MARCH 75. NOOTER STRESSED U.S. SUPPORT FOR CONSORTIUM EFFORTS TO SPEED DEVELOPMENT IN INDIA, NOTING RECENT \$128 MILLION P.L. 480 PROGRAM. AS MEANS OF ENABLING COUNTRIES TO PROCEED WITH DEBT RELIEF IF THEY WISH, IN THE ABSENCE OF U.S. PARTICIPATION, NOOTER SUGGESTED CONSORTIUM MAY WISH TO FOCUS ON CONCEPT OF FREE FOREIGN EXCHANGE UNDER WHICH EACH CREDITOR WOULD BE FREE TO USE ANY AND ALL METHODS OF PROVIDING HIGH QUALITY ASSISTANCE. IN RESPONSE TO CREDITOR SUGGESTIONS THAT U.S. RECONSIDER POSITION, NOOTER STRESSED THAT HE SAW NO POSSIBILITY OF U.S. CHANGING POSITION REGARDING U.S. RESCHEDULING INDIAN DEBT THIS YEAR.

3. SUMMARIES OF OTHER CREDITOR VIEWS FOLLOWS: (CREDITOR LIMITED OFFICIAL USE
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TORS ARE LISTED IN THE ORDER OF THEIR IMPORTANCE AS 1975/76 CREDITORS.) GERMANY HAS ALREADY CONCLUDED A DEBT RELIEF AGREEMENT WITH INDIA. GERMAN REP (KLAMSER) COULD ACCEPT U.S. FOOD AID AS COMPENSATING FOR DEBT RELIEF THIS YEAR BUT KLAMSER STRONGLY URGED U.S. TO RECONSIDER OUR POSITION FOR THE FUTURE. KLAMSER FORESAW A COMPLETE DISINTEGRATION OF CONSORTIUM DEBT RELIEF EFFORTS IF UNIFORM PARTICIPATION WAS NOT PRESERVED. KLAMSER NOTED THAT THERE WOULD BE STRONG PRESSURE FROM THE GERMAN FINANCE MINISTRY NOT TO PARTICIPATE IN FUTURE DEBT RELIEF FOR INDIA WITHOUT UNIFORM CREDITOR PARTICIPATION. HE SAW NEXT YEAR'S U.S. POSITION AS DECISIVE.

JAPANESE REP (TANIDA) STATED THAT WHILE JAPAN VIEWS DEBT RELIEF AS SOMETHING TO BE USED ONLY IN EXCEPTIONAL CIRCUMSTANCES, THEY BELIEVED THERE WAS JUSTIFICATION FOR DEBT RELIEF FOR INDIA. TANIDA REMINDS THE CONSORTIUM THAT JAPAN RESCHEDULED LAST YEAR ONLY WITH DIFFICULTY, SINCE CANADA AND ITALY DID NOT PARTICIPATE AND THE U.S. FAILED TO MEET THE 45 PERCENT WORLD BANK TARGET. SINCE JAPANESE LAW PROHIBITS DEBT RELIEF UNLESS "ALL OR MOST OF PRINCIPAL CREDITOR NATIONS" ALSO PARTICIPATE, THE U.S. POSITION THIS YEAR MEANS THERE IS "VERY LITTLE PROSPECT" JAPAN COULD RESCHEDULE. IF CANADA OR ITALY JOINED IN DEBT RELIEF THIS YEAR, HOWEVER, TANIDA INDICATED THAT IT MIGHT OPEN POSSIBILITY OF JAPAN JOINING RESCHEDULING EXERCISE. JAPAN COULD NOT VIEW U.S. FOOD AID AS BEING EQUIVALENT TO DEBT RELIEF SINCE THIS IMPOSES BURDEN SHARING AND WOULD PERMIT OTHER CREDITORS TO SUBSTITUTE ALL OTHER COMMODITIES NEEDED BY INDIA IN THE PLACE OF DEBT RELIEF. JAPAN IN OPEN MEETING GAVE NO INDICATION OF WHETHER THEY WOULD BE WILLING TO PROVIDE HIGH QUALITY AID IN LIEU OF DEBT RELIEF ALTHOUGH PRIVATELY TANIDA SAID ELIMINATION OF DEBT RELIEF IN JAPANESE AID PACKAGE COULD NOT BE COMPENSATED FOR BY ADDITIONAL AID. UNITED KINGDOM REP (SMITH) RECOGNIZED U.S. DIFFICULTIES AND NOTED THE UK WAS CONTENT TO VIEW U.S. FOOD AID AS THE U.S. CONTRIBUTION TO A DEBT RELIEF SCHEME THIS YEAR. SMITH STRESSED, HOWEVER, THE VALUE OF DEBT RELIEF AS AN INSTRUMENT OF CONSORTIUM ACTION. SMITH STRONGLY URGED THE CONSORTIUM TO RETAIN THIS INSTRUMENT AND HOPED THE U.S. WOULD RECONSIDER ITS POSITION IN FUTURE YEARS. SMITH
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NOTED THAT THE UK WOULD HAVE DIFFICULTY VIEWING FOOD AID AS PART OF FUTURE DEBT RELIEF EXERCISES IF INDIA'S NEED FOR FOOD DECLINES. ASSUMING THERE WAS A "REASONABLE QUORUM," THE UK WAS IN PRINCIPLE READY TO RESCHEDULE 45 PERCENT OF DEBT SERVICE DUE THIS YEAR ON THE TERMS RECOMMENDED BY THE BANK. SMITH ASKED THE BANK TO DRAW UP A SCHEME FOR DEBT RELIEF/FOOD AID FOR THIS YEAR. FRENCH REP (NEBOT) REFERRING TO LAST YEAR'S U.S. INITIATIVE REGARDING A CREDITOR CLUB FOR INDIA, NOTED THAT FRANCE WAS "NEUTRAL" ON THIS ISSUE. NEBOT VIEWED DEBT RELIEF FOR INDIA AS BOTH A MEANS OF MAXIMIZING AID TO INDIA AND AS A WAY OF ESTABLISHING EQUITABLE BURDEN-SHARING. THE U.S. POSITION HAD, IN NEBOT'S VIEW, MADE EQUITABLE BURDEN-SHARING IMPOSSIBLE. NEBOT DID NOT CONSIDER U.S. FOOD AID AS HAVING ANY CHARACTERISTICS OF "ADDITIONALITY" SINCE U.S. AID LEVELS WERE STILL BELOW THE LEVELS OF THE LATE 1960'S. NEBOT NOTED THAT FRANCE ALSO EXTENDED FOOD AID TO INDIA BUT DID NOT USE THIS AS A RATIONALE FOR REDUCING DEBT RELIEF. NEBOT STATED FRANCE MIGHT GRANT SOME DEBT RELIEF TO INDIA BUT

THE AMOUNT AND TERMS OF THIS RELIEF WOULD BE DETERMINED AT THE DISCRETION OF THE GOF AND MAY BE MIXED WITH FOOD AID.

CANADA REP (POWER) STATED CANAA VIEWED DEBT RELIEF AS A USEFUL AND EFFECTIVE MANS OF ASSISTING INDIA IN THE PRESENT SITUATION. POWER NOTED CANADA'S PARTICULAR BILATERAL PROBLEMS WITH INDIA OVER THE INDIAN NUCLEAR EXPLOSION WERE NOW BEING NEGOTIATED. CANADA "WAS MAKING PROGRESS" IN THESE NEGOTIATIONS, BUT WAS NOT IN A POSITION TO SAY WHETHER OR NOT CANADA COULD PARTICIPATE IN 1975/76 DEBT RELIEF. POWER STATED THAT CANADA'S ON-GOING AID COMMITMENTS AND OTHER AID ALLOCATIONS TO INDIA WOULD TOTAL ABOUT \$100 MILLION THIS YEAR, OF WHICH \$56

MILLION WAS FOOD AID. CANADIAN TREASURY REP STATED CANADA VIEWED DEBT RELIEF AS A "PROPER FORM OF AID TRANSFER" BUT THOUGHT THAT IN INDIA'S SITUATION AN "INDEX OF HARDNESS" SHOULD BE APPLIED. IN RESPONSE TO JAPANESE VIEW OF CANADA AS MAJOR CREDITOR, HE NOTED THAT ACCORDING TO THE WORLD BANK PROPOSAL CANADA WOULD RESCHEDULE ONLY \$6.7 MILLION.

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NETHERLANDS REP (MEENG) URGED THE BANK TO MAINTAIN A DEBT RELIEF SCHEME THIS YEAR. MEENG ALSO URGED DONORS WHO COULDN'T PARTICIPATE TO FIND OTHER WAYS OF PROVIDING COMPARABLE ASSISTANCE TO INDIA.

AUSTRIAN REP (PELZ) STATED AUSTRIAN VIEW THAT DEBT RELIEF IS ONE OF THE MOST EFFICIENT CONSORTIUM INSTRUMENTS. PELZ REGRETED THE U.S. POSITION BUT COULD ACCEPT U.S. FOOD AID IN AN OVERALL SCHEME. AUSTRIA PROBABLY WOULD TAKE PART IN SUCH A "COMMON EFFORT."

ITALIAN REP (CANDILIO) HAD NO POSITION SINCE THE BANK REPORT WAS RECEIVED LATE AND THE MINISTER RESPONSIBLE WAS ILL. CANDILIO NOTED THAT ALL PROPOSALS WOULD BE CAREFULLY STUDIED, BUT POINTED OUT ITALY HAD "LIMITED ABILITIES." HAVING SAID THIS HE LEFT MEETING FOR "ANOTHER MEETING."

SWEDISH REP (PALMLUND) SAID SWEDEN HAD NO DIFFICULTY PARTICIPATING IN DEBT RELIEF AT THE LEVEL RECOENDED BY THE BANK. HE STRSED THAT 1975/76 WAS NOT THE YEAR TO DISCARD DEBT RELIEF FOR INDIA NOTING BOTH INDIA'S POSITION AS AN MSA AND THE FACT THAT OTHER EFFORTS TO SECURE A NEW ORDER FOR THE THIRD WORLD HAVE NOT BEEN VERY SUCCESSFUL. HE THEREFORE REGRETED U.S. ABANDONING BURDEN SHARING DEBT RELIEF APPROACH. WHILE FOOD MAY BE AS EFFECTIVE AS DEBT RELIEF THIS YEAR, THIS WULD NOT ALWAYS BE SO. UNLESS THE U.S. CHANGED ITS POSITION NEXT YEAR, THIS WOULD BE THE "BEGINNING OF THE END" OF CONSORTIUM DEBT RELIEF.

BELGIAN REP (DARON) SAID ANY FORMULA MIXING DEBT RELIEF WITH FRESH RESOURCES TO INDIA WOULD BE ACEPTABLE TO

BELGIUM IF ALL CONSORTIUM CREDITORS AGREED TO IT.

4. WHAT NEXT? THE WORLD BANK IS LEFT WITH TRYING TO PATCH TOGETHER SOME SORT OF A DEBT RELIEF AGREEMENT THIS YEAR. IT IS LIKELY TO BE COUPLED WITH THE PLEA THAT COUNTRIES WHO CAN'T PARTICIPATE IN RESCHEDULING PROVIDE ADDITIONAL HIGH QUALITY (I.E. FAST DISBURSING) AID IN LIEU OF DEBT RELIEF. THE NET IMPACT OF SUCH AN AGREEMENT ON INDIA WILL PROBABLY BE DEERMINED BY THE JAPANESE CONTRIBUTION. GIVEN THE EMPHASIS PLACED ON THE "BURDEN SHARING" MERITS OF DEBT RELIEF BY ALL OTHERCREDITORS, IT APPEARS LIKELY THAT THE ABSENCE OF U.S. PARTICIPATION NEXT YEAR COULD PRECLUDE ANY OVERALL CONSORTIUM DEBT RELIEF AGREEMENT.

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5. SEPTTEL FOLLOWS ON SUBJECT OF OVERALL INDIAN AID REQUIREMENTS. INGERSOLL

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